

STATE OF ILLINOIS



Department of Insurance

IN THE MATTER OF:

FIDELITY SECURITY LIFE INSURANCE COMPANY
3130 BROADWAY STREET
KANSAS CITY, MISSOURI 64111-2406

STIPULATION AND CONSENT ORDER

WHEREAS, the Director of the Illinois Department of Insurance ("Department") is a duly authorized and appointed official of the State of Illinois, having authority and responsibility for the enforcement of the insurance laws of this State; and

WHEREAS, Fidelity Security Life Insurance Company is authorized under the insurance laws of this State and by the Director as a foreign stock company, to engage in the business of soliciting, selling and issuing insurance policies; and

WHEREAS, a Market Conduct Examination of Fidelity Security Life Insurance Company ("Company") was conducted by duly qualified examiners of the Department pursuant to Sections 5/131.21, 5/132, 5/401, 5/402 and 5/425 of the Illinois Insurance Code ("Code") [215 ILCS 5/131.21, 5/132, 5/401, 5/402 and 5/425]; and

WHEREAS, the Department filed an examination report as an official document of the Department as a result of the Market Conduct Examination; and

WHEREAS, said report cited various areas in which the Company was not in compliance with the Code; and

WHEREAS, this Stipulation and Consent Order includes the compromise and settlement of disputed claims. Nothing herein contained, nor any action taken by any of the parties hereto in connection herewith, shall constitute, or be construed as, or be deemed to be, an admission of fault, liability or wrongdoing of any kind whatsoever on the part of any party hereto.

WHEREAS, the Company is aware of and understands its various rights in connection with the examination and report, including the right to counsel, notice, hearing and appeal under Sections 5/132, 5/401, 5/402, 5/407 and 5/407.2 of the Illinois Insurance Code and 50 Ill. Adm. Code 2402; and

WHEREAS, the Company understands and agrees that by entering into this Stipulation and Consent Order, it waives any and all rights to notice and hearing; and

WHEREAS, the Company and the Director, for the purpose of resolving all matters raised by the report and in order to avoid any further administrative action, hereby enter into the Stipulation and Consent Order.

NOW, THEREFORE, IT IS agreed by and between the Company and the Director as follows:

1. Institute and maintain procedures whereby the Company does not pay commission to producers/entities not duly licensed as required by 50 Ill. Adm. Code 5/500-80.
2. Institute and maintain procedures whereby the Company notifies the insured's beneficiary of the availability of interest payment due to delayed claim processing as required by 50 Ill. Adm. Code 5/224(1)(l).
3. Institute and maintain procedures assure full compliance with 50 Ill. Adm. 1405.40(g) and 215 ILCS 5/224(1)(j) when there is a claim on a policy due to the death of the insured then settlement shall be made upon receipt of due proof of death. Due proof shall consist of sufficient evidence to establish in a court a prima facie case for payment of the claim, the insurer shall not require that a specific form be used when submitting a claim.
4. Institute and maintain procedures whereby the Company includes a Notice of Availability of the Department of Insurance letter with all denied claims as required by 50 Ill. Adm. Code 919.50(a)(1).
5. Institute and maintain procedures whereby the Company provides the insured with a Notice of Availability of the Department of Insurance on the 45-day delay letter as required by 50 Ill. Adm. Code 919.70(a)(2).

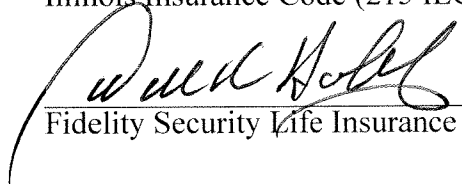
THEREFORE, IT IS HEREBY ORDERED by the undersigned Director of the Illinois Department of Insurance, that Fidelity Security Life Insurance Company shall:

1. Institute and maintain procedures whereby the Company does not pay commission to producers/entities not duly licensed as required by 50 Ill. Adm. Code 5/500-80.
2. Institute and maintain procedures whereby the Company notifies the insured's beneficiary of the availability of interest payment due to delayed claim processing as required by 50 Ill. Adm. Code 5/224(1)(l).
3. Institute and maintain procedures assure full compliance with 50 Ill. Adm. 1405.40(g) and 215 ILCS 5/224(1)(j) when there is a claim on a policy due to the death of the insured then settlement shall be made upon receipt of due proof of death. Due proof shall consist of sufficient evidence to establish in a court a prima facie case for payment of the claim, the insurer shall not require that a specific form be used when submitting a claim.


4. Institute and maintain procedures whereby the Company includes a Notice of Availability of the Department of Insurance letter with all denied claims as required by 50 Ill. Adm. Code 919.50(a)(1).
5. Institute and maintain procedures whereby the Company provides the insured with a Notice of Availability of the Department of Insurance on the 45-day delay letter as required by 50 Ill. Adm. Code 919.70(a)(2).
6. Submit to the Director of Insurance, State of Illinois, proof of compliance with the above five (5) orders within 30 days of the execution of these Orders.
7. The Company shall pay to the Director, within 30 days, a civil forfeiture of \$10,000.

NOTHING herein contained shall prevent the Director from taking any and all appropriate action should Fidelity Security Life Insurance Company violate any provision of the Illinois Insurance Code or this Order.

A VIOLATION of the above Order may cause revocation of the licensing authority of Fidelity Security Life Insurance Company pursuant to Section 5/407.2 of the Illinois Insurance Code (215 ILCS 5/407.2).

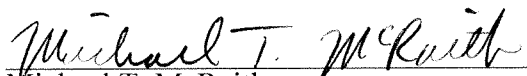

Fidelity Security Life Insurance Company

Subscribed and sworn to before me this
28th day of April A.D. 2010.


ANTONIA L. SALANKY
Notary Public - Notary Seal
State of Missouri
Jackson County
My Commission Expires May 13, 2012

DEPARTMENT OF INSURANCE of the
State of Illinois;

DATE April 29, 2010


Michael T. McRaith
Director



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FIDELITY SECURITY
LIFE INSURANCE COMPANY

MARKET CONDUCT EXAMINATION REPORT

DATE OF EXAMINATION: May 18, 2009 through August 14, 2009

EXAMINATION OF: Fidelity Security Life Insurance Company

COMPANY ADDRESS: 3130 Broadway Street
Kansas City, Missouri 64111-2406

PERIOD COVERED
BY EXAMINATION: January 1, 2008 thru December 31, 2008

EXAMINERS: Alvin N. Hysler
Danny L. Talkington
Examiner in Charge

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I. SUMMARY

1. The Company was criticized under 215 ILCS 5/500-80 for payment of commissions to producers/entities not duly licensed.
2. The Company was criticized under 215 ILCS 5/224(1)(l) for failure to notify the insured's beneficiary of the availability of interest payment due to delayed claim processing as required.
3. The Company was criticized under 215 ILCS 5/224(1)(j) and 50 Ill. Adm. 1405.40(g) for requiring the insured's beneficiary to provide more than mere proof of death. Accordingly, where death from any cause is covered, beneficiaries should not be required to answer questions about the cause of the insured's death or whether or not the insured had suffered from certain diseases. Additionally, an Insurer shall not require that a specific form be used when submitting a claim.
4. The Company was criticized under 50 Ill. Adm. Code 919.50(a)(1) for failure to provide insured a Notice of Availability of the Department of Insurance on denied claims as required.
5. The Company was criticized under 50 Ill. Adm. Code 919.70(a)(2) for failure to provide the insured with Notice of Availability of the Department of Insurance on the 45-day delay letter as required.

II. BACKGROUND

Fidelity Security Life Insurance Company (the “Company”), for approximately 40 years, has worked closely with marketing companies, third-party administrators and other distributors to create successful life, annuity and health programs for niche markets.

The Company’s roots can be traced to a small agency in Kansas City, Missouri, purchased by Forrest & Dorothy Jones in 1953. They renamed it Forrest T. Jones & Company, Inc. and built the company into a leading third-party administrator with nationwide distribution and multiple affinity relationships.

In 1968, the Joneses formed Fidelity Security Life Insurance Company, with \$600,000 in capital and a desire to bring new products to the association marketplace. From that beginning, the Company has grown to over \$500 million in assets and is on target to reach capital and surplus of \$84.6 million, with a target of \$100 million by 2010. The Company is licensed in 50 states and the District of Columbia. The Company was licensed to do business in Illinois on May 14, 1973.

The Company is rated A- (Excellent) by A. M. Best & Co. and remains in family control under the majority ownership of Richard F. Jones, son of Forrest & Dorothy, and is one (1) of seven (7) insurance and financial services companies owned or controlled by the Jones’ family. Richard has two (2) sons who have joined the family owned business, with a third son scheduled to join the enterprise during the summer of 2009.

As the marketing environment changed over the years, so did the focus of the Company. With its roots in the association/affinity marketplace, the Company still maintains many of its early relationships. However, the Company diversified over the years to form five (5) separate and distinct Strategic Business Units:

1. Joint Venture – highly specialized programs with products designed to fill a specific niche.
2. Specialty Benefits – large volume programs with high transaction counts, primarily supplemental health products such as vision, outpatient prescription drug carve-outs and dental.
3. Self Funded/Excess Loss – provides excess loss expense reimbursement and employer/employee group term life programs. Distribution is through licensed Managing General Agents/Underwriters.

4. Asset Accumulation – interest sensitive products such as fixed and variable annuities and numerous forms of life insurance.
5. Special Markets – associations, buying groups and other programs with specific affinity with distribution primarily through direct response.

The Company continues to employ a proven strategy of controlled diversity through the above units. While marketing strategies vary by business unit, critical mass for products is augmented by offering them through multiple channels. Each unit realizes economies by sharing in-house support for actuarial, compliance, administration, reinsurance relationships, systems and customer service.

III. METHODOLOGY

The Market Conduct Examination places emphasis on evaluating an insurer's system and procedures used in dealing with insured's and claimants. The following categories are the general areas examined.

1. Producer Licensing & Production
2. Claims Analysis
3. Non-Forfeiture Analysis
4. Policy Forms & Advertising Materials Review
5. Insurance Department and Consumer Complaints

The review of these categories was accomplished through examination of producer files, claim files, cash surrendered policy files, policy forms & advertising material, and Department of Insurance and consumer complaint files. Each of these categories was examined for compliance with Department Regulations and applicable State laws.

The report concerns itself with improper practices performed with such frequency as to indicate general practices. Individual criticisms were identified and communicated to the insurer, but not cited in the report if not indicative of a general trend, except to the extent that underpayments and/or overpayments in claim surveys or undercharges and/or overcharges in underwriting surveys were cited in the report.

The following methods were used to obtain the required samples and to assure a methodical selection:

Producer Licensing and Production

Populations for the producer file reviews were determined by whether or not the producers were licensed by the State of Illinois. New business listings were retrieved from Company records by selecting newly solicited insurance applications that reflected Illinois addresses for applicants.

The examination period for the producer analysis was January 1, 2008 through December 31, 2008.

Claims

1. Paid Claims - Payment for claims made during the examination period.
2. Denied Claims – Denial of benefits for losses not covered by policy provisions.

All claims were reviewed for compliance with policy contracts and endorsements, and applicable sections of the Illinois Insurance Code (215 ILCS 5/1 et seq.), and 50 Illinois Administrative Code (50 Ill. Adm. Code).

Median payment periods were measured from the date all necessary proofs of loss were received to the date of payment to the insured or the beneficiary. The examination period of the claims survey was January 1, 2008 through December 31, 2008.

Non-Forfeiture Analysis

Listings were requested of all life and annuity policies that were cash surrendered, placed on extended term insurance status, or converted to reduced paid-up insurance during the examination period. These listings were retrieved by a search of Illinois life policies that were either lapsed for nonpayment of premium or were requested non-forfeiture option conversions made by the policyholders. The examination period for the Non-Forfeiture Analysis was January 1, 2008 through December 31, 2008.

Policy Forms & Advertising Material Review

All policy forms, form letters, riders and advertising materials used in Illinois during the examination period were requested. These were reviewed for compliance as to format, content and terminology as required by Illinois Law. The examination period for the Policy Forms & Advertising Material Review was January 1, 2008 through December 31, 2008.

Insurance Department and Consumer Complaints

The Company was requested to provide all files relating to complaints received via the Department as well as those received directly by the Company from the insured or his/her representative. A copy of the Company's complaint register was also reviewed.

Median periods were measured from the date of notification by the complainant to the date of response to the Department. The examination period of this survey was January 1, 2008 through May 18, 2009.

SELECTION OF SAMPLE

<u>Survey</u>	<u>Population</u>	<u># Reviewed</u>	<u>% Reviewed</u>
<u>Producers Analysis</u>			
Producers/Applications	126/267	126/267	100.00
Terminated Agents Review	1	1	100.00
<u>Claims Analysis</u>			
Paid Individual Life	1	1	100.0000
Paid Group Life	7	7	100.0000
Denied Group Life	2	2	100.0000
Paid Group Hospital Indemnity	458	88	19.2100
Denied Group Hospital Indemnity	191	60	31.4100
Paid Group Limited Medical Indemnity	612	123	20.0900
Denied Group Limited Medical Indemnity	617	124	20.0900
Paid Group Major Medical	1,202	118	09.8100
Denied Group Major Medical	850	115	13.5200
Paid Group Vision	260,906	117	.0448
Denied Group Vision	7,405	120	1.6200
Paid Group Dental	1,687	121	7.1700
Denied Group Dental	338	94	27.8100
Annuity Death Settlements	3	3	100.0000
<u>Non-Forfeiture Analysis</u>			
Life Cash Surrenders	9	9	100.00
Annuity Cash Surrenders	6	6	100.00
<u>Policy Forms & Advertising</u>	444	444	100.00
<u>Complaint Analysis</u>			
Department of Insurance Complaints	10	10	100.00
Consumer Complaints	115	115	100.00

IV. FINDINGS

A. Producer Analysis

1. A review of 126 producers and 267 commission payments produced one (1) criticism. A criticism was written under 215 ILCS 5/500-80 for payment of \$1,316.75 commissions to one (1) producer/entity not duly licensed on one (1) application. The Company agreed that commission was paid to one (1) producer/entity that was not licensed.
2. A review of the one (1) agent terminated for cause file produced no criticisms.

B. Claims Analysis

1. Paid Individual Life

One (1) Paid Individual Life claim file was reviewed. One (1) file or 100% of files reviewed was criticized. A general trend criticism was written under 215 ILCS 5/224(1)(l) for failure to notify the insured's beneficiary of the availability of interest payment due to delayed claim processing. The Company agreed that it failed to provide the insured's beneficiary notice of the availability of interest due to delayed claim processing.

A general trend criticism was written under 215 ILCS 5/224(1)(j) for requiring the insured's beneficiary to provide more than mere proof of death. According to 50 Ill. Adm. 1405.40(g) and 215 ILCS 5/224(1)(j) when there is a claim on a policy due to the death of the insured then settlement shall be made upon receipt of due proof of death. Accordingly, where death from any cause is covered, beneficiaries should not be required to answer questions about the cause of the insured's death or whether or not the insured had suffered from certain diseases. Additionally an insurer shall not require that a specific form be used when submitting a claim. Although the Company disagreed with the examiners findings it did agree to change the claim form currently in use by the Company to assure that it would only be requiring due proof of death.

No median for payment could be established.

2. Paid Group Life

Seven (7) Paid Group Life claim files were reviewed. One (1) file or 15% of the files reviewed were required to contain a reasonable written explanation for the claim being delayed beyond 45 days. While this file did include a written explanation of delay, the explanation failed to include the required Notice of Availability of the Department of Insurance. A general trend criticism was written under 50 Ill. Adm. Code 919.70(a)(2) for failure to provide insured Notice of Availability of the Department of Insurance as required. The Company agreed that it failed to provide insured Notice of Availability of the Department of Insurance as required.

Seven (7) Paid Group Life claim files reviewed contained claim forms that required the beneficiary to provide more than mere proof of death. Although the Company disagreed with the examiners findings it did agree to change the claim form currently used by the Company to assure that it would only be requiring due proof of death.

3. Denied Group Life

A review of two (2) Denied Group Life claim files produced no criticisms.

The median for denial was 10 days.

4. Paid Group Hospital Indemnity

A review of eight (8) Paid Group Hospital Indemnity claim files produced no criticisms.

The median for payment was seven (7) days.

5. Denied Group Hospital Indemnity

Four (4) files of the 60 Denied Group Hospital Indemnity claim files reviewed were required to contain a reasonable written explanation for the claim being delayed beyond 45 days. Three (3) or 75% of the files requiring a reasonable written explanation were criticized under 50 Ill. Adm. Code 919.70(a)(2) for failure to provide Notice of Availability of the Department of Insurance as is required. The Company agreed that it failed to provide the referenced "Notice".

The median for denial was six (6) days.

6. Paid Group Limited Medical Indemnity

A review of 123 Paid Group Limited Medical Indemnity claim files produced no criticisms.

The median for payment was nine (9) days.

7. Denied Group Limited Medical Indemnity

One hundred twenty-four Denied Group Limited Medical indemnity claim files were reviewed. A general trend criticism was written under 50 Ill. Adm. Code 919.50(a)(1) for failure to provide insured Notice of Availability of the Department of Insurance, however, 100% of the files reviewed was in error. The Company agreed that it failed to provide the referenced "Notice" as is required.

The median for denial was nine (9) days.

8. Paid Group Major Medical

A review of 118 Paid Group Major Medical claim files produced no criticisms.

The median for payment was 11 days.

9. Denied Group Major Medical

One hundred fifteen Denied Group Major Medical claim files were reviewed. Sixty-two or 54% of the claim files reviewed were criticized. A general trend criticism was written under 50 Ill. Adm. Code 919.50(a)(1) for failure to provide insured Notice of Availability of the Department of Insurance on denied claims as required. The Company agreed that it failed to provide the referenced "Notice" as is required.

The median for denial was 11 days.

10. Paid Group Dental

A review of 121 Paid Group Dental claim files produced no criticisms.

The median for payment was eight (8) days.

11. Denied Group Dental

Ninety-four or 100% of the Denied Group Dental claim files reviewed were criticized. A general trend criticism was written under 50 Ill. Adm. Code 919.50(a)(1) for failure to provide insured Notice of Availability of the Department of Insurance on denied claims as is required. The Company agreed that it failed to provide the referenced "Notice" as is required.

The median for denial was nine (9) days.

12. Paid Group Vision

A review of 117 Paid Group Vision claim files produced no criticisms.

The median for payment was four (4) days.

13. Denied Group Vision

One hundred twenty Denied Group Vision claim files were reviewed. Thirty-three or 28% of the files reviewed were criticized. A general trend criticism was written under 50 Ill. Adm. Code 919.50(a)(1) for failure to provide insured Notice of Availability of the Department of Insurance in claim denial situations as is required.

The median for denial was four (4) day.

14. Annuity Death Settlements

A review of three (3) Annuity Death Settlement claim files produced no criticisms.

The median for payment was 12days.

C. Non-Forfeiture Analysis

1. Life Cash Surrenders

A review of nine (9) Life Cash Surrender claim files produced no criticisms.

The median for payment was four (4) days.

2. Annuity Cash Surrenders

A review of six (6) Annuity Cash Surrender claim files produced no criticisms.

The median for payment was seven (7) days.

D. Policy Forms & Advertising Material

A review of 444 policy forms and advertising brochures used during our survey period produced no criticisms.

E. Complaint Analysis

1. Department of Insurance Complaints

A review of 10 Department of Insurance Complaints produced no criticisms.

The median for response was 15 days.

2. Consumer Complaints

A review of 115 Consumer Complaints produced no criticisms.

The median for response was seven (7) days.

V. INTERRELATED FINDINGS

VI. TECHNICAL APPENDICES

This Market Conduct Examination was conducted pursuant to Sections 5/131.21, 5/132, 5/402 and 5/425 of the Illinois Insurance Code (215 ILCS 5/131.21, 5/132, 5/402 and 5/425). It was conducted in accordance with standard procedures of the Market Conduct Examination Section by duly qualified examiners of the Illinois Department of Insurance.

This report is divided into five parts. They are as follows: Summary, Background, Methodology, Findings and Technical Appendices. All files reviewed were reviewed on the basis of the files' contents at the time of the examination. Unless otherwise noted, all overcharges (underwriting) and/or underpayments (claims) were reimbursed during the course of the examination.

No company, corporation, or individual shall use this report or any statement, excerpt, portion, or section thereof for any advertising, marketing or solicitation purpose. Any company, corporation or individual action contrary to the above shall be deemed a violation of Section 149 of the Illinois Insurance Code (215 ILCS 5/149).

The Examiner-in-Charge was responsible for the conduct of this examination. The Examiner-in-Charge did approve of each criticism contained herein and has sworn to the accuracy of this report.

Scott Richardson, FLMI, ACS, AIE, AIAA
Acting Assistant Deputy Director
Market Conduct Examination Section

STATE OF ILLINOIS



Department of Financial and Professional Regulation Division of Insurance

IN THE MATTER OF
THE EXAMINATION OF

FIDELITY SECURITY LIFE INSURANCE COMPANY
3130 BROADWAY
KANSAS CITY, MISSOURI 64111

MARKET CONDUCT EXAMINATION WARRANT

I, the undersigned, Director of Insurance of the State of Illinois, pursuant to Sections 5/131.21, 5/132, 5/401, 5/402, 5/403 and 5/425 of the Illinois Insurance Code (215 ILCS 5/131.21, 5/132, 5/401, 5/402 and 5/425) do hereby appoint Danny Talkington, Examiner-In-Charge, Alvin Hysler and associates as the proper persons to examine the insurance business and affairs of Fidelity Security Life Insurance Company of Kansas City, Missouri, and to make a full and true report to me of the examination made by them of Fidelity Security Life Insurance Company with a full statement of the condition and operation of the business and affairs of Fidelity Security Life Insurance Company with any other information as shall in their opinion be requisite to furnish me a statement of the condition and operation of its business and affairs and the manner in which it conducts its business.

The persons so appointed shall also have the power to administer oaths and to examine any person concerning the business, conduct, or affairs of Fidelity Security Life Insurance Company.

IN TESTIMONY WHEREOF,

I hereto set my hand and cause to be affixed the Seal of my office.
Done at the City of Springfield, this 23rd day of March, 2009.

Michael T. McRaith

Michael T. McRaith

Director



STATE OF ILLINOIS



Department of Financial and Professional Regulation Division of Insurance

STATE OF ILLINOIS)
COUNTY OF SANGAMON) ss

Danny Talkington, being first duly sworn upon his oath, deposes and says:

That he is an examiner employed by the Division of Insurance of the State of Illinois;

That an examination was made of the affairs of Fidelity Security Life Insurance Company of Kansas City, Missouri, a foreign stock company, organized and authorized under the laws of the State of Missouri, pursuant to authority vested in the Warrant issued by the Director of Insurance of the State of Illinois;

That he was the Examiner-in-Charge of said examination and the attached report of examination is a true and complete report of the activities of the above named company, concerning the claim practices and procedures, rating, underwriting and marketing practices as of 31 DECEMBER 2008 as determined by the examiners.

Danny L. Talkington
Examiner-In-Charge

Subscribed and sworn to before me
this 15th day of December,
A. D. 2009.

William R. McAndrew
Notary Public

